

Public Works & Utilities

Cost of Service Analysis Water and Sewer Utility



May 5, 2015

Schedule of Analysis

Deliverable	Anticipated Completion	Actual Completion
Project Kick Off Meeting	February 2015	February 2015
Pricing Objectives Workshop		
<input type="checkbox"/> Wichita Water Utilities Advisory Committee	April 2015	April 2015
<input type="checkbox"/> Activate Wichita	May 2015	
Customer Demand Analysis	May 2015	
Capital Project Management Tool	June 2015	
Comprehensive Rate Structure Analysis	June 2015	
Interactive Pro Forma Model	June 2015	
Draft Cost of Service Results	June 2015	
Draft Report	July 2015	
Final Report	August 2015	

Pricing Objectives Workshop

Pricing Objectives	
Affordable to Disadvantaged Customers	Economic Development through Water Rates
Conservation/Demand Management	Equitable Contribution to from New Customers
Cost of Service Recovery	Minimize Customer Impacts
Deferred System Maintenance	Rate Stability
Easy to Implement	Revenue Stability
Easy to Understand and Update	

Water Utility Advisory Committee Ranking

Pricing Objective	Average
Deferred System Maintenance	1.25
Rate Stability	1.50
Cost of Service Recovery	1.58
Revenue Stability	1.67
Conservation/Demand Management	1.75
Affordable to Disadvantaged Customers	2.67
Minimize Customer Impacts	2.67
Easy to Understand and Update	2.83
Equitable Contributions from New Customers	2.92
Easy to Implement	3.17
Economic Development through Water and Sewer Rates	3.75

Wichita Water Utility Advisory Committee

Top 5 Objectives
✓ Deferred System Maintenance
✓ Rate Stability
✓ Cost of Service Recovery
✓ Revenue Stability
✓ Conservation/Demand Management

The Committee emphasized that many, if not all, of the pricing objectives were important and that many are currently being met by means other than the rate structure.

Deferred System Maintenance

Concept

- Revenue for full renewal and replacement included in rate structure.
- Accounts for the depreciation of assets
- Monitors life cycle cost of assets and addresses maintenance needs that have been deferred.

Deferred System Maintenance

Impact

- Due to the backlog of deferred maintenance, costs would be higher initially.
- Costs would stabilize and may be lower long-term, once deferred maintenance of assets begins to be addressed.
- Conflicts with affordability.

Rate Stability

Concept

- Smooth program of rate adjustments is usually preferable
- Volatile swings should be avoided

Rate Stability

Impact

- Allows customers to budget for the future.
- Requires the utility to actively plan for the future as well.

Cost of Service Recovery

Concept

- Recovery of costs from customers and customer types in proportion to cost of providing service.
- Customers are more willing to accept their fair share.
- Equity between customer types

Cost of Service Recovery

Impact

- A rate structure that does not recognize cost of recovery may have a customer type paying their share of the cost and the share of others.
- Residential paying for business – as determined by 2011 COSA
- Can be difficult to update and understand

Revenue Stability

Concept

- Water sales are largely driven by the weather.
- Strive for revenues that are predictable and stable.
- Revenues matched with revenue requirements.

Revenue Stability

Impact

- Revenue can be stabilized by increasing the base charge, which may result in less conservation.
- Revenue stability can alternatively be achieved using conservative revenue estimates for future planning.

Conservation/Demand Management

Concept

- Pricing structure should encourage more efficient water use.
- May target specific customer types.
- Targets discretionary use.

Conservation/Demand Management

Impact

- Conflicts with the “Easy to Understand” objective.
- Increased demand leads to higher costs
 - Water Supply
 - Drought Resilience
 - Infrastructure Maintenance

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Affordable to Disadvantaged Customers

Concept

- Economically disadvantaged customers should be able to afford the essential services provided by the utility.
- Utility should understand the cost of affordability programs.

Affordable to Disadvantaged Customers

Impact

- Difficult to identify these customers.
- Lower rates for disadvantaged customers will need to be offset by higher rates for others.
- Presently, the City operates the H₂O (Help to Others) Care Fund to assist those unable to afford their water bill.

Minimize Customer Impacts

Concept

- Avoid large changes in customers' bills.
- Minimize differential impact between different types of customers.

Minimize Customer Impacts

Impact

- Allows customers to budget for the future.
- Requires the utility to actively plan for the future as well.

Easy to Understand and Update

Concept

- Customers should be able to understand their bill.
- Rate structure is not unnecessarily complicated.

Easy to Understand and Update

Impact

- Customers better understand how their water usage affects their bill.
- Less burdensome on City operations.
- May jeopardize conservation.
- May not meet other, greater utility needs, such as deferred maintenance.

Equitable Contributions from New Customers

Concept

Intergenerational Equity

- Growth pays for growth
 - Plant equity fee
 - Tap fee

Equitable Contributions from New Customers

Impact

- Increased fees may discourage potential new customers/development.

Easy to Implement

Concept

- Minimal impact on customer service staff.
- Compatible with billing software.
- Based on readily available data.

Easy to Implement

Impact

- Less burdensome for City operations.
- May jeopardize conservation.
- May not meet other, greater utility needs, such as deferred maintenance.

Economic Development through Water and Sewer Rates

Concept

- Water and sewer service as incentive for economic development.
- Comparability with neighbors/competitors.

Economic Development through Water and Sewer Rates

Impact

- Lower rates for new or expanding businesses would result in higher rates for others.

Black and Veatch 50 Largest Cities Water/Wastewater Rate Survey	
Customer Profile	City of Wichita's Ranking out of 50 (1 = Lowest Rates 50= Highest Rates)
Average Residential Customer	10
Average Commercial Customer	4
Average Industrial Customer	6

Transparency

In accordance with City Council's ongoing effort to promote transparency in operations, City Staff will coordinate with the new Strategic Communication Director to determine the best method of sharing information regarding

- Customer Billing – how billing relates to usage
- Utility Needs – debt service payments, infrastructure needs, the cost of treating and supplying water

Activate Wichita

Citizens are encouraged to complete the newly posted survey.



www.activate-wichita.com

Survey open April 24-May 15, 2015

Next Steps

Tentative Timeline	
Finish preliminary Cost of Service Analysis (COSA)	June 2015
Create phased option for new water supply	July 2015
Conduct Advisory Committee meeting on COSA and new supply	August 2015
Receive input from the public and District Advisory Boards	September – October 2015
Consider utility rate changes	November – December 2015

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Questions?



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